

Link to Excel File :- [Case study DCF - Excel](#)

Answers

1. Factors affecting the composition of current assets vs. long-term assets:

From the balance sheet data, I can observe that:

- Current assets increased from \$20,289M (2018) to \$29,505M (2021)
- Long-term assets grew from \$20,541M (2018) to \$29,763M (2021)

Key factors affecting this composition:

- Business Model: The company maintains significant inventory (\$14,215M in 2021) as a retail business
- Growth Strategy: Increasing property and equipment (\$23,492M in 2021) shows investment in physical expansion
- Liquidity Management: Strong cash position (\$11,258M in 2021) indicates conservative working capital management
- Operating Lease Changes: Addition of operating lease right-of-use assets (\$2,890M in 2021) affected long-term asset composition

2. Impact of debt-to-equity ratio on creditworthiness:

Looking at the company's capital structure:

- Total Debt in 2021: \$7,491M (\$799M current + \$6,692M long-term)
- Total Equity in 2021: \$18,078M

The relatively low debt levels suggest:

- Strong creditworthiness due to conservative leverage
- Greater flexibility in accessing future capital
- Lower financial risk profile
- Better terms for future borrowing

3. Debt-to-Equity Ratio Analysis:

Calculating D/E ratio (Total Liabilities/Total Equity):

2018: 2.12 (27,727/13,103)

2019: 1.91 (29,816/15,584)

2020: 1.97 (36,851/18,705)

2021: 2.28 (41,190/18,078)

The company shows:

- Increasing reliance on debt financing in recent years
- However, maintaining healthy equity base
- Conservative capital structure overall

4. Revenue Growth Analysis:

Total Revenue Growth:

2019: \$152,703M

2020: \$166,761M (9.2% growth)

2021: \$195,929M (17.5% growth)

Segment Growth:

Merchandise Sales:

2019: \$149,351M

2020: \$163,220M (9.3% growth)

2021: \$192,052M (17.7% growth)

Membership Fees:

2019: \$3,352M

2020: \$3,541M (5.6% growth)

2021: \$3,877M (9.5% growth)

Projected Growth (from assumptions):

2022E: 10.0%

2023E: 10.0%

2024E: 9.0%

2025E: 7.0%

2026E: 5.0%

5. Gross Margin Analysis:

Calculating Gross Margin (Gross Profit/Revenue):

2019: 13.0% (19,817/152,703)

2020: 13.1% (21,822/166,761)

2021: 12.9% (25,245/195,929)

Projected Gross Margins:
2022E: 13.0%
2023E: 13.0%
2024E: 13.0%
2025E: 13.0%
2026E: 13.0%
The company has maintained stable gross margins around 13%, showing consistent operational efficiency.
6. Using Free Cash Flow Analysis for Company Comparison:
Investors can use FCF analysis to compare companies by:
- Analyzing Operating Efficiency: The company's UFCF grew from \$3,158M (2019) to \$4,698M (2021)
- Evaluating Growth Investment: CapEx increased from \$2,701M (2019) to \$3,568M (2021)
- Assessing Capital Efficiency: The projected UFCF shows steady growth to \$5,704M by 2026
- Comparing Working Capital Management: NWC improved from -\$7,497M (2019) to -\$11,312M (2021)
Key metrics for comparison:
- FCF Yield
- FCF Growth Rate
- FCF Conversion Rate
- FCF Return on Invested Capital
This analysis shows a financially healthy company with:
- Strong revenue growth
- Stable margins
- Conservative capital structure
- Efficient working capital management
- Sustainable free cash flow generation
Some more Analysis :
1. Working Capital Management Efficiency

Current Ratio (Current Assets/Current Liabilities):
- 2018: 1.02 (20,289/19,926)
- 2019: 1.01 (23,485/23,237)
- 2020: 1.13 (28,120/24,844)
- 2021: 1.00 (29,505/29,441)
Inventory Turnover (COGS/Average Inventory):
2019: 11.84 (132,886/11,218)
2020: 12.24 (144,939/11,819)
2021: 12.89 (170,684/13,229)
Days Inventory Outstanding:
2019: 30.8 days
2020: 29.8 days
2021: 28.3 days
Analysis:
- Maintaining efficient inventory management with improving turnover
- Conservative working capital policy with current ratio around 1.0
- Strong supplier relationships evidenced by accounts payable growth
2. Return Metrics Analysis
Return on Assets (Net Income/Average Total Assets):
2019: 8.6% (3,704/43,115)
2020: 8.1% (4,059/50,478)
2021: 8.8% (5,079/57,412)
Return on Equity (Net Income/Average Stockholders' Equity):
2019: 25.8% (3,704/14,344)
2020: 24.0% (4,059/16,945)
2021: 27.6% (5,079/18,392)
ROIC (NOPAT/Invested Capital):
2019: 15.2%
2020: 14.8%
2021: 16.4%
Analysis:

- Consistent ROA indicating stable operational efficiency
- Strong ROE showing effective use of shareholder capital
- Improving ROIC demonstrating good capital allocation
3. Operating Efficiency Analysis
Operating Margin (Operating Income/Revenue):
2019: 3.1% (4,737/152,703)
2020: 3.3% (5,435/166,761)
2021: 3.4% (6,708/195,929)
Projected Operating Margins:
2022E: 3.3%
2023E: 3.3%
2024E: 3.3%
2025E: 3.3%
2026E: 3.3%
Asset Turnover (Revenue/Average Total Assets):
2019: 3.74
2020: 3.30
2021: 3.41
Analysis:
- Slight improvement in operating margins over time
- High asset turnover indicating efficient use of assets
- Consistent operational performance with room for improvement
4. Cash Flow Efficiency Analysis
Operating Cash Flow Conversion (Operating Cash Flow/Net Income):
2019: 171.6% (6,356/3,704)
2020: 218.3% (8,861/4,059)
2021: 176.4% (8,958/5,079)
CapEx as % of Revenue:
2019: 1.77% (2,701/152,703)
2020: 3.21% (5,350/166,761)
2021: 1.82% (3,568/195,929)

Free Cash Flow Yield (FCF/Enterprise Value):

2019: 1.79% (3,158/176,425)

2020: 1.62% (2,859/176,425)

2021: 2.66% (4,698/176,425)

Analysis:

- Strong cash flow conversion indicating quality earnings
- Variable but controlled capital expenditure
- Improving free cash flow yield

5. Capital Structure and Coverage Analysis

Interest Coverage Ratio (EBIT/Interest Expense):

2019: 31.6x (4,737/150)

2020: 34.0x (5,435/160)

2021: 39.2x (6,708/171)

Net Debt Position (Total Debt - Cash):

2019: -1,561M (6,823 - 8,384)

2020: -4,668M (7,609 - 12,277)

2021: -3,767M (7,491 - 11,258)

EBITDA Coverage Ratio (EBITDA/Interest Expense):

2019: 41.5x

2020: 44.3x

2021: 49.6x

Analysis:

- Very strong interest coverage indicating low default risk
- Negative net debt position showing strong liquidity
- Improving coverage ratios demonstrating financial strength

6. Membership Analysis

Membership Revenue per Total Revenue:

2019: 2.19% (3,352/152,703)

2020: 2.12% (3,541/166,761)

2021: 1.98% (3,877/195,929)

Membership Revenue Growth:

2020: 5.6%

2021: 9.5%

Analysis:

- Consistent membership revenue growth
- Declining membership revenue as percentage of total revenue
- Potential opportunity for membership fee increases

Key Insights and Recommendations:

1. Financial Strength:

- Strong balance sheet with negative net debt
- Excellent coverage ratios
- Efficient working capital management

2. Growth Opportunities:

- Potential for membership fee optimization
- Room for operating margin improvement
- International expansion potential

3. Risk Factors:

- Working capital efficiency could be improved
- Slight decline in asset turnover
- Increasing reliance on debt financing

4. Strategic Considerations:

- Consider optimizing capital structure given strong coverage ratios
- Evaluate opportunities for operating margin expansion
- Focus on maintaining high inventory turnover
- Explore membership revenue growth opportunities